

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 1877 – HB 1948**

March 2, 2009

**SUMMARY OF BILL:** Increases from \$1,500 to \$1,700 the sales tax exemption for computers sold during the recurring August sales tax holiday. Deletes obsolete laws regarding one-time spring sales tax holidays.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$38,200**  
**Increase State Expenditures – \$16,100**

Assumptions:

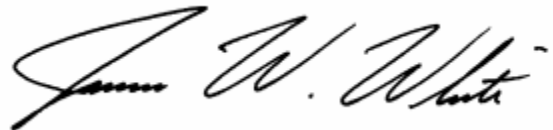
- According to the Department of Revenue, exempted computer sales from the August 2008 sales tax holiday was approximately \$3,100,000.
- The average price of computers sold during the August 2008 sales tax holiday is estimated to be \$1,000 each.
- The number of computers sold during the August 2008 sales tax holiday is estimated to be 3,100 ( $\$3,100,000 / \$1,000 = 3,100$ ).
- This bill incentivizes consumers to purchase computers they would not have otherwise purchased. These individuals are assumed to have delayed such purchases under current law because they would not have been able to purchase more-advanced computing systems costing greater than \$1,500, but less than \$1,700, without having to pay sales tax.
- Exempt computer sales increase by three percent (93 more computers) in August 2009 as compared to August 2008 as a result of additional consumers purchasing computers.
- The average price of computers sold during the August 2009 sales tax holiday is estimated to increase to \$1,150 as a result of consumers being able to purchase computers with more features, software, processing capabilities, storage, etc.
- The increase of exempted computer sales is estimated to be \$572,000 per year  $[(3,193 \times \$1,150) - \$3,100,000 = \$571,950]$ .
- The current state sales tax rate is seven percent.

**SB 1877 – HB 1948**

- The decrease of state sales tax revenue is estimated to be \$40,000 per year ( $\$572,000 \times 7.0\% = \$40,040$ ).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local government receives 4.5925 percent of state sales tax revenue as state-shared sales tax. Assuming no hold harmless provision for local government, the decrease to local government revenue would be approximately \$1,800 per year ( $\$40,000 \times 4.5925\% = \$1,837$ ).
- The net decrease to state revenue is estimated to be \$38,200 per year ( $\$40,000 - \$1,800 = \$38,200$ ).
- The average local option sales tax rate is estimated to be 2.5 percent.
- Assuming no hold-harmless provisions for local government, the total decrease of local option sales tax revenue would be approximately \$14,300 per year ( $\$572,000 \times 2.5\% = \$14,300$ ).
- Pursuant to Tenn. Code Ann. § 67-6-710(h), local government is reimbursed from the loss of any local tax resulting from the annual sales tax holiday. Therefore, the increase to state expenditures for holding local government harmless from any loss of local tax revenue resulting from the annual sales tax holiday is approximately \$16,100 per year ( $\$1,800 \text{ state-shared} + \$14,300 \text{ local option} = \$16,100$ ).

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc